

A bargaining tool

Vol. 4, No. 114, May 11, 1998

U. S. Secretary of State Madeleine K. Albright stated that Ukraine had achieved "substantial progress" in solving the problems connected to a number of complaints from American investors. According to the American law, Mrs. Albright's statement had to be made before April 30, 1998; otherwise the Congress would have reduced by half the amount of foreign assistance funds earmarked for Ukraine. At some point, the issue of American assistance "hang on a hair": too many American companies complained about Ukraine both in private discussions and publicly. The complaints proved to be something more serious than just the Gala Radio case: the company's grievances were supported by major American business actors, including the Monsanto, the Cargill, the Coca-Cola, the McDonald's, the Proctor and Gamble and the Du Pont. The avalanche of complaints was so sweeping that many lost temper, and even Senator Mitch McConnell, often called "Mr. Ukraine" for his favor for this country, publicly stated that he would no more support appropriation of foreign assistance to Ukraine.

Here we should note the rather rapid reaction of the Ukrainian top-ranking officials who began to discuss, if not solve, the problems of foreign investors. For some time, Ukraine's leaders changed the notorious "we've-got-our-own-state-with-our-own-laws" for a more pragmatic "we-need-help-we-need-investments". I do not mean the visit of presidential chief of staff Yevhen Kushnariov to Washington D.C.: his public statements convinced Americans that they'd better deal with Secretary of the National Security and Defence Council Volodymyr Horbulin. However, at one point, a substantial effort was made to make things clear, to find understanding with some and scare others, and to try and find a solution. The principle "cash now, carry later" on the Ukrainian part resulted in a rather clumsy push to produce something tangible that could be "carried" in exchange for the promised cash.

To a certain extent, all these actions made the tone of Mrs. Albright's speech rather tense and showed that the Ukrainian party could produce action when it is willing to. According to the U. S. Secretary of State, the United States may refrain from providing financial assistance to the Ukrainian government in the fields where the reforms have stopped, and where the assistance cannot be used effectively. The judgement was motivated by anxiety over the government's failure to solve American investors' problems, as well as by unfavorable investment climate in Ukraine and the slow pace of economic reforms. As economic reform priorities, Mrs. Albright quoted settlement of twelve investment disputes, and concrete steps aiming at improving the investment climate, including creation of a more transparent procedures of supply and licensing, reforms of the legislation, stronger guarantees of shareholders' rights, enforcement of court judgements, and adoption of a strict ethical civil service code. According to the U. S. Secretary of State, if within the upcoming months the American government does not see that reforms are going ahead, that the assistance is being used effectively, and that a substantial progress has been achieved, the funds will be retargeted at other private and nongovernmental spheres of the economy. Therefore, responding to the Ukrainian officials' skill of making something similar to what is required, the Americans decided to demonstrate the imaginary pack of dollar notes.

The decision adopted by the Americans is rather mild, compared to what could have been. Ukrainian and American radicals' demands to stop the American assistance altogether, expecting that the step would prompt the Ukrainian government to start real reforms cannot be seen as justified: the US\$ 225 million is not the amount sufficient for undertaking reforms of the scale and scope needed in Ukraine. Rather, the money is a symbol of a certain level of trust that still remains in the United States to Ukraine, it is the dim glow of the "strategic partnership", and the American policy's "carrot and stick". The deterioration of the American policy to the simple dilemma "to give or not to give" suggests that the Clinton administration does not have a comprehensive considerate policy towards Ukraine. Phrases like "slow pace of economic reforms" and "unfavorable investment climate" are designed to screen not only the anxiety about the fact that reforms in Ukraine have practically stopped and that there is nothing much to provide assistance for, but also the fact that the current domestic political situation leaves no hope that the reforms will be pursued at all. The American approach is not a carte blanche for the reform process - nobody is giving it now - but a suggestion that the assistance may undergo major

restructuring. The retargeting of the American assistance from the state-owned to the nongovernmental sector, if it does occur, will mean not only the no-confidence gesture to the Ukrainian government and the lack of trust in the latter's ability and willingness to carry out reforms: it will also signify a certain change in the U. S. policy towards Ukraine, from assisting the state to funding Ukrainian nongovernmental "influence groups" that are capable of forcing the state into undertaking reforms.

However, there is a noteworthy obstacle to the American intention - if any - to retarget the assistance money to the nongovernmental sector: there are no influential political circles in Ukraine that would serve as a backing for the U. S. policy like, for instance, the Baltic states, Turkey or Armenia. The Rukh is largely compromised by their own inconsistency in statements and actions, while the party of Reforms and Order, led by prominent economist Victor Pynzenyk, lacks access to power. Awareness of the lack of such "influence groups" in Ukraine enhances United States' officials' disbelief in fast success of Ukrainian reforms.

Regretfully, such attitude to Ukraine is justified. The Ukrainian decision-makers prefer to account for their "difficult childhood" and the "lack of vitamins" by references to the "left-wing danger" and conspiracy of the "mean" legislature, but many in Washington D.C. no longer believe the multiple repetitions of those arguments, no matter how real and important they may be. Consider, for instance, the judgement of one of 32 ad hoc parliamentary investigation commissions of the previous Verkhovna Rada. The commission, established to verify the circumstances of establishment, activities and bankruptcy of a Ukrainian-American joint venture, the Borshchahovsky Chemico-Pharmaceutical Factory, announced that another commission, led by Vice Prime Minister Serhiy Tihipko, assisted "extrajudicial settlement" of foreign investors' problems. Another example is the task, given by the parliament to Speaker Oleksandr Moroz to "serve U. S. Ambassador in Ukraine with copies of petitions of American senators and congressmen in defence of the company" (i.e., the P. J. Trading), and to "inform the Congress and the Senate of the USA about the facts of pressure exerted by some senators and congressmen on the Ukrainian executive authorities for the purpose of illicit extrajudicial settlement of business disputes." Other examples of the previous parliament's opposition to reforms include blocking the large privatization by means of listing practically all investment-attractive enterprises among the property that is "not subject to privatization due to its national importance", and Oleksandr Moroz's vehement opposition to privatization of land, expressed in statements like "pseudo-theoreticians of the land reform impose the idea of destruction of collective farms through what at the first glance appears to be attractive division of land into individual parcels, which in half a year may cause the ruination of all suburban farms".

The arguments, connected with the parliament, are not accepted in Washington D.C. not only because people over there remember Mr. Moroz's rather pro-American statements about "important American assistance to the Ukrainian military-industrial complex" (March 31, 1995), his suggestion that the U. S. should initiate an international conference on the issues of security in the Black Sea region (April 10, 1995), and his statements like "Ukraine is prepared to establish joint ventures with foreign investors for the development of its transportation infrastructure, and can provide such enterprises in the construction industry with materials and labor force". Obviously, Mr. Moroz tends to "shy" between those statements and his "chants" about "Lenin as a cosmic phenomenon" and "the global role of the Great October".

Ukraine's problem is that its executive branch also cannot be seen as a model of consistency in fulfilling its own vows. I am not speaking here about the outrageous fact that Ukrainian officials quote different figures every time they are asked about the cost of closing down the Chernobyl nuclear power plant, nor about the obscure difference between closing down the Chernobyl NPP and a "political decision about closing it". Evidently, some of president Kuchma's statements may be viewed as "situationally justified", like, for instance, presidential candidate Kuchma's statement on May 17, 1994, that "the sense and design of the IMF model was to pull technologically backward former USSR countries to the world market, after destroying all their enterprises and industries able to compete with Western firms' products." But what about his recent statement that have not been forgotten yet? In August 1997, Leonid Kuchma claimed that "... our market reforms became kind of a challenge not only to the domestic left-wing opposition - which is understandable anyway - but to Western states, although they have made unequivocal statements about support for those reforms". How can something nonexistent be a challenge to anything? Meanwhile, president Kuchma's statement that he had information about "facts of bribing Ukrainian structures by some American firms" (April 1997) and that "some American firms engage in bribing Ukrainian structures in order to try and get access to

technical [assistance] loans provided to Ukraine by international financial institutions" are serious enough to be supported with adequate sentences of Ukrainian or American courts.

Without that one can hardly hope that Ukraine will be viewed in the U. S. as a country where not only every bureaucrat's word is as good as gold, but the president, democratically elected by the people, is responsible for his words. Meanwhile, tiny achievements in the Ukrainian-American relations - like mutual concessions on the issue of Ukraine's involvement in building a nuclear power plant in the town of Buzher in Iran - are submerged by statements like the ones quoted above. The issue of assistance, after all, is not that important. What really matters is understanding of responsibility for making sure that the assistance funds are used appropriately, and that Ukraine abides by its obligations and carefully fulfils its promises. Then there will be no need to apply the "cash now carry later" principle, the exchange will be direct and immediate and everybody will get what he needs.